

**POWDER MOUNTAIN
WATER AND SEWER DISTRICT**

Financial Statements

December 31, 2006

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**CARVER
FLOREK &
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CERTIFIED PUBLIC ACCOUNTANTS

Steven L. Carver, CPA
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INDEPENDENT ACCOUNTANTS' REPORT

Kerby Cate, CPA
Jared Frost, CPA
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Board of Trustees
Powder Mountain Water and Sewer District

We have audited the accompanying financial statements of the business-type activities of Powder Mountain Water and Sewer District as of and for the year ended December 31, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Powder Mountain Water and Sewer District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance that the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Powder Mountain Water and Sewer District as of December 31, 2006, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 22, 2007 on our consideration of the Powder Mountain Water and Sewer District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Carver Florek & James, CPAs

June 22, 2007

**POWDER MOUNTAIN WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Our discussion and analysis of Powder Mountain Water and Sewer District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2006.

FINANCIAL HIGHLIGHTS

- ❖ The District's net assets increased \$311,410 as a result of this year's operations. This is a 28.9% increase in the net assets as compared to the prior year.
- ❖ The District's revenues were \$572,727, which was a decrease of \$126,995 from the prior year. \$397,000 of revenue was from impact/connection fees that will be reserved for future improvements and debt service. \$521,212 of this amount was disbursed for improvements and debt payments.
- ❖ The District's operating expenses for the year were \$261,317, which was a decrease of 10.9% from the year ended December 31, 2005.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements: The Statement of Net Assets; Statement of Revenues, Expenses and Changes in Net Assets; and Statement of Cash Flows. These statements provide information about the activity of the District as a whole and present a longer-term view of the District's finances. Since the District is operated as a proprietary fund, there are no fund statements presented because all operations of the District are reported using the accrual method of accounting.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets report information about the District as a whole and about its activities in a way that helps determine if the District is better or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. Net assets equal the difference between assets and liabilities. This is one way to measure the District's financial position. Increases or decreases in the District's net assets are one indicator of whether the financial position of the District is improving or deteriorating. You will need to consider other non-financial factors, such as the condition of the District's water and sewer distribution systems to assess the overall health of the District.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, the District shows all of its activities in one fund.

REPORTING THE DISTRICT'S SIGNIFICANT FUND

The District has only one fund, which accounts for the activity of the District. The entity-wide financial statements provide detailed information about the operations of the District as a whole. The District's only fund is operated as an enterprise fund. Enterprise funds are reported using an accounting method called accrual accounting, which records expenses when they are incurred and records revenues when they are earned. The District does not have any governmental type funds.

THE DISTRICT AS A TRUSTEE

The District does not hold any funds or property in a trustee capacity.

THE DISTRICT AS A WHOLE

Business-type activities - The District charges fees to customers for water and sewer services, and other O&M costs and connection costs associated with the water and sewer systems. These fees along with property taxes cover all or most of the cost of services associated with providing water and sewer services.

Net assets of the District changed by \$311,410 from a year ago, increasing from \$1,077,377 to \$1,388,787. The following analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the District's business-type activity.

Table 1
Net Assets

	2006	2005
Current and other assets	\$ 576,027	\$ 647,559
Capital assets, net of depreciation	847,995	877,293
Total assets	\$ 1,424,022	\$ 1,524,852
Long-term debt outstanding	\$ -	\$ 426,250
Other liabilities	35,235	21,225
Total liabilities	35,235	447,475
Net assets:		
Invested in capital assets	847,995	877,293
Restricted	343,215	467,427
Unrestricted (deficit)	197,577	(267,343)
Total net assets	1,388,787	1,077,377
Total liabilities and net assets	\$ 1,424,022	\$ 1,524,852

Net Assets of the District are \$1,388,787. *Unrestricted* net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - are \$1,045,572. These net assets are used to finance the continuing operations of providing water and sewer services to citizens within the District's boundaries.

Table 2
Change in Net Assets

	<u>2006</u>	<u>2005</u>
Revenues		
Program revenues:		
Charges for services	\$ 130,817	\$ 114,973
General revenues:		
Property taxes	13,381	13,246
Connection fees	397,000	559,250
Other general revenues	<u>31,529</u>	<u>12,253</u>
Total revenues	<u>572,727</u>	<u>699,722</u>
Program expenses		
Connection fees	50,000	90,000
Contract services	44,187	28,093
Depreciation	29,298	27,844
Insurance	5,610	2,405
Interest expense	20,792	26,244
Land rental and easements	22,564	20,944
Materials and supplies	5,110	3,081
Meeting and trustee fees	16,104	12,255
Repairs and fuel	44,292	63,984
Utilities	11,781	10,252
Wages	5,400	2,200
Water	<u>6,179</u>	<u>5,983</u>
Total expenses	<u>261,317</u>	<u>293,285</u>
Change in net assets	311,410	406,437
Net assets - beginning	<u>1,077,377</u>	<u>670,940</u>
Net assets - ending	<u><u>\$ 1,388,787</u></u>	<u><u>\$ 1,077,377</u></u>

BUDGETARY HIGHLIGHTS

Over the course of the year, the Board made no revisions to the District's budget.

Since the District operates as an enterprise fund, it is only required to comply with the budget on an entity wide basis. Without any budget adjustments, the actual charges to expenses were \$42,117 above the final budgeted amount. Income was \$85,131 higher than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the District had net capital assets of \$877,293 in a broad range of capital assets, including land, equipment, and water and sewer systems lines.

Capital Assets at Year-End (Net of Depreciation)

	2006	2005
Land	\$ 1,337	\$ 1,337
Water and sewer system	846,658	875,956
Net capital assets	\$ 847,995	\$ 877,293

There were no capital asset additions during the fiscal year 2006.

Debt

During 2006 the District paid off its long- term debt as follows:

	2006	2005
Note payable - Powder Mountain, Inc.	\$ -	\$ 6,019
Note payable - Western America, Inc.	-	77,091
Bond guarantee	-	149,875
Accrued interest	-	193,265
Total	\$ -	\$ 426,250

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economic situation for the area covered by the Powder Mountain Water and Sewer District has improved in the last several years. Development has increased, and further substantial development is planned. The major employers are recreation and agriculture.

The District budgeted revenues in the amount of \$193,100 for the fiscal year 2007, which consists of property taxes, impact fees, interest, water and sewer service fees and connection fees. Total expenditures for 2007 were budgeted at \$193,100 to cover salaries and operating expenses. Some new construction is expected in the area served by the District which will result in an increase in connection fees. The amount is indeterminable.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Office at P.O. Box 270, Eden, Utah 84310.

POWDER MOUNTAIN WATER AND SEWER DISTRICT

**STATEMENT OF NET ASSETS
PROPRIETARY FUND**

December 31, 2006

ASSETS

	<u>2006</u>	<u>2005 Comparative Only</u>
Current assets:		
Cash and cash equivalents	\$ 273,621	\$ 503,321
Accounts receivable - services (Note 3)	193,653	36,863
Accounts receivable - other	-	11,985
Prepaid water	<u>11,568</u>	<u>6,179</u>
Total current assets	478,842	558,348
Non-current assets:		
Land	1,337	1,337
Net water and sewer systems	846,658	875,956
Accounts receivable - delinquent (Note 3)	<u>97,185</u>	<u>89,211</u>
Total noncurrent assets	<u>945,180</u>	<u>966,504</u>
Total assets	<u>\$ 1,424,022</u>	<u>\$ 1,524,852</u>

See accompanying notes to financial statements

POWDER MOUNTAIN WATER AND SEWER DISTRICT
STATEMENT OF NET ASSETS (Continued)
PROPRIETARY FUND
December 31, 2006

LIABILITIES AND NET ASSETS

	2006	2005 Comparative Only
Current liabilities:		
Accounts payable	\$ 20,235	\$ 17,225
Connection fee payable	15,000	4,000
Total current liabilities	35,235	21,225
Long-term liabilities:		
Due Powder Mountain, Inc. (Note 5)	-	6,019
Due Western America (Note 6)	-	77,091
Bond guarantee (Note 7)	-	149,875
Accrued interest	-	193,265
Total long-term liabilities	-	426,250
Total liabilities	35,235	447,475
Net assets:		
Invested in capital assets	847,995	877,293
Restricted for impact capital improvements (Note 16)	343,215	467,427
Unrestricted (deficit)	197,577	(267,343)
Total net assets	1,388,787	1,077,377
Total liabilities and net assets	\$ 1,424,022	\$ 1,524,852

See accompanying notes to financial statements

POWDER MOUNTAIN WATER AND SEWER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND

For the Years Ended December 31, 2006

	2006	2005 Comparative Only
Operating revenues:		
Water service fees	\$ 40,856	\$ 40,318
Sewer service fees	89,961	74,655
Other income	3,256	2,156
Total operating revenue	<u>134,073</u>	<u>117,129</u>
Operating expenses:		
Depreciation	29,298	27,844
Electricity	11,781	10,252
Engineering and consulting	23,376	17,839
Insurance	5,610	2,405
Land rental and easement	22,564	20,944
Legal and accounting	20,811	10,254
Meeting and trustee fees	16,104	12,255
Miscellaneous	910	60
Office	759	74
Permits and testing	1,071	57
Repairs and fuel	44,292	63,984
Telephone	2,370	2,890
Wages	5,400	2,200
Water payments	6,179	5,983
Total operating expenses	<u>190,525</u>	<u>177,041</u>
Operating loss	(56,452)	(59,912)
Nonoperating revenues (expenses):		
Interest income	28,273	10,097
Interest expense	(20,792)	(26,244)
Connection fees received	397,000	559,250
Connection fees paid	(50,000)	(90,000)
Tax revenue	13,381	13,246
Total nonoperating revenue	<u>367,862</u>	<u>466,349</u>
Change in net assets	311,410	406,437
Total net assets, beginning of year	<u>1,077,377</u>	<u>670,940</u>
Total net assets, end of year	<u><u>\$ 1,388,787</u></u>	<u><u>\$ 1,077,377</u></u>

See accompanying notes to financial statements

POWDER MOUNTAIN WATER AND SEWER DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Years Ended December 31, 2006

	2006	2005 Comparative Only
Cash flows from operating activities:		
Cash received from customers	\$ 362,447	\$ 702,591
Cash received from property taxes	23,211	3,636
Cash received from other operating activities	31,529	12,253
Cash payments to suppliers	(412,084)	(246,600)
Cash payments to employees	(4,800)	(2,200)
Net cash provided by operating activities	<u>303</u>	<u>469,680</u>
Cash flows from capital and related financing activities:		
Payment on debt	(230,003)	(5,341)
Acquisition and construction of capital assets	<u>-</u>	<u>(44,732)</u>
Net cash provided by noncapital financing activities	<u>(230,003)</u>	<u>(50,073)</u>
Cash flow from investing activities	-	-
Net increase (decrease) in cash and cash equivalents	(229,700)	419,607
Cash and cash equivalents at beginning of year	<u>503,321</u>	<u>83,714</u>
Cash and cash equivalents at end of year	<u>\$ 273,621</u>	<u>\$ 503,321</u>

See accompanying notes to financial statements

POWDER MOUNTAIN WATER AND SEWER DISTRICT

**STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUND**

For the Years Ended December 31, 2006

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING
ACTIVITIES:**

ACTIVITIES:

	2006	2005 Comparative Only
Cash flows from operating activities:		
Net income	\$ 311,410	\$ 406,437
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	29,298	27,844
(Increase) decrease in accounts receivable	(155,761)	18,759
(Increase) decrease in prepaid water	(5,389)	(196)
Increase (decrease) in accounts payable	14,010	725
Increase (decrease) in accrued expenses	(193,265)	16,111
Net cash provided by operating activities	<u>\$ 303</u>	<u>\$ 469,680</u>

SUPPLEMENTAL DISCLOSURES

Non-cash investing activities	\$ -	\$ -
Operating activities reflect:		
Interest paid	\$ 214,057	\$ 10,132
Taxes	\$ -	\$ -

See accompanying notes to financial statements

POWDER MOUNTAIN WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Powder Mountain Water and Sewer District (the District) is a special district organized in 1978 by the Weber County Commission for the purpose of providing sewage treatment services in the Powder Mountain area. The District operates under a Board of Trustees form of government.

In defining the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB). Based upon the application of the criteria established by GASB Statement No. 14, the District has no component units.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 when applicable and not in conflict with GASB pronouncements. The more significant of the government's accounting policies are described below.

Fund Accounting

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The District's only fund is a Proprietary Fund type, which is based on the flow of economic resources measurement focus and uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The District applies all FASB pronouncements issued unless they contradict GASB pronouncements.

The District's operations are accounted for in an Enterprise Fund. This category included operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) established fees and charges based on a pricing policy designed to recover similar costs.

Basis of Accounting

The District's financial statements are presented on the full accrual basis of accounting.

POWDER MOUNTAIN WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of 3 months or less.

State statutes authorize a government unit to invest in obligations of the U.S. Treasury, commercial paper, repurchase agreements, and the State Treasurer's Investment Pool.

Investments are stated at cost which approximates fair value.

Inventories and Prepaid Items

The District does not maintain any significant inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Fixed Assets

All purchased fixed assets are valued at cost. Depreciation is calculated using the straight line method over 50 years for the water and sewer system, 30 years for tanks, and 5 - 10 years for equipment.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related fixed assets as applicable.

Equity

Equity is classified as "Net assets" in the financial statements.

It consists of (a) contributed capital; (b) restricted amounts: net assets with constraints placed on the use (see Supplementary Information); and (c) unrestricted amounts: the remaining net assets that are not restricted.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues include charges for services and property taxes received. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing activities or result from ancillary activities.

Budgets

Annual budgets are prepared and adopted by the District in accordance with the "Uniform Fiscal Procedures Act" during December for the following fiscal year, which begins on January 1. Budgets are prepared and approved by the Board of Directors. A public budget hearing is set at which time taxpayers' comments can

POWDER MOUNTAIN WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

be heard. At the conclusion of the public hearing, the budget, as amended, is legally enacted through the passage of a resolution. The Board may amend the budget during the fiscal year, but did not do so in 2006.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

District policy does not provide for vested or accumulated vacation leave.

Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the government's financial position and operation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH AND INVESTMENTS

Included in the caption "Cash and cash equivalents" in the District's financial statements are its cash and investments. The District follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. This Act requires the depositing of District funds in a "qualified depository," which is defined as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

The District maintains its cash in bank demand deposits; these amounts are under the limits of FDIC insurance.

Investments

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by 2 nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers acceptances; obligations of the U.S. Treasury including bills, notes, and bonds; bonds, notes and other evidence of indebtedness of political subdivision of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher by 2 nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund (PTIF).

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, which established the Money Management Council to oversee the activities of

POWDER MOUNTAIN WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

the State Treasurer and the PTIF and to detail the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

NOTE 2 - CASH AND INVESTMENTS (Continued)

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses, net of administrations fees, of the PTIF are allocated based on the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

At December 31, 2006 the District's cash and cash equivalents consisted of the following:

	<u>Carrying Amount</u>	<u>Market Value</u>
Utah State PTIF	\$ 237,371	\$ 237,372
Key Bank Checking	36,250	36,250
	<u>\$ 273,621</u>	<u>\$ 273,622</u>

All amounts invested with the PTIF have maturities under 1 year.

NOTE 3 - ACCOUNTS RECEIVABLE

Customers are billed quarterly for water and sewer service fees. One customer has been disconnected for failure to pay. Court action has been initiated to collect the account. The balance of the account has been transferred to a long-term receivable account. The balances of all accounts at December 31, 2006 were:

Current	\$ 169,135
Delinquent	108,685
	<u>\$ 277,820</u>

Disconnected customers are no longer charged service fees but are still billed interest charges.

Services to Powder Ridge Village account for approximately 24% of the total services billed. They are current on their account.

POWDER MOUNTAIN WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 4 - CAPITAL ASSETS

Depreciation on capital assets used in the enterprise fund has been provided on a straight-line basis as follows:

	Depreciation Rate	Cost	Accumulated Depreciation	Cost Less Depreciation
Land	NIA	\$ 1,337	\$ -	\$ 1,337
Water and sewer system	2-20%	1,383,696	(537,038)	846,658
		<u>\$ 1,385,033</u>	<u>\$ (537,038)</u>	<u>\$ 847,995</u>

Changes in capital assets:

	Balance December 31, 2005	Additions	(Deletions)	Balance December 31, 2006
Land	\$ 1,337	\$ -	\$ -	\$ 1,337
Water and sewer system	1,383,696	-	-	1,383,696
	<u>\$ 1,385,033</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,385,033</u>

NOTE 5 - DUE TO POWDER MOUNTAIN, INC.

The District owed Powder Mountain, Inc. for water connections, easement charges, and other expenses paid by Powder Mountain, Inc. The balance at December 31, 2005 of \$6,020 was paid off in 2006.

NOTE 6 - DUE TO WESTERN AMERICA

The District owed Western America, Inc. for easement charges for using the land on which the District's sewer lagoons are located. The balance at December 31, 2005 of \$77,091 was paid off in 2006.

NOTE 7 - BOND GUARANTEE

Powder Mountain, Inc. agreed to charge a \$.50 surcharge on each day pass or its equivalent sold by Powder Mountain, Inc. for a five year period (to be selected by the District). These funds were to be deposited into

POWDER MOUNTAIN WATER AND SEWER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

the Security Fund. These funds are to accrue interest at 10.75% and become a payment obligation of the District until repaid. November 1994 was the final month of the 5 year period. The balance at December 31, 2005 of \$343,140 was paid off in 2006.

NOTE 8 - RENTS AND EASEMENTS

The District rented property easements from Western America, Inc., Elkhorn Partnership, and Powder Mountain, Inc. In 2006 these companies sold all their properties to new owners. New lease and easement agreements have not been negotiated. Charges for the twelve months ended December 31, 2006 and 2005 were \$22,564 and \$20,944 respectively.

Prior to the sale of the afore mention properties, Western America, Inc. rented ground to the district upon which the District's sewer lagoons are located. The original lease has expired and a new lease has not been negotiated. The District and new owners are in legal discussions concerning the matter.

NOTE 9 - CONNECTION FEE AGREEMENT

On October 30, 1986, the District purchased the water system from Powder Mountain, Inc. A down payment of \$35,000 was made. In addition, the District will pay Powder Mountain, Inc. \$2,000 for each new water connection until an additional sum of \$165,000 has been paid. The current balance is \$91,000. The District will also furnish, at no additional cost, 60 water connections to Powder Mountain, Inc. upon request. 51 connections remain to be issued.

On August 4, 1997, the District passed a resolution adopting a water and sewer connection impact fee. The sewer impact fee is \$6,500. The water impact fee is \$5,000 per connection.

NOTE 10 - - CONTINGENT LIABILITIES

BOND SETTLEMENT AGREEMENT-

On February 3, 1997 the District signed a bond settlement agreement with Zion's First National Bank (the Indenture Trustee) in which the District was relieved from the obligation of the 1989 Series Bonds, \$1,700,000 and all interest accrued against the bonds. In exchange, the District paid the bond Trustee \$232,655 cash, the balance of 10 installment notes still owing on the sale of 18 lots, 3 developed unsold lots, 72 condominium pads, 1.91 acres commercial land, and a commitment to pay \$500 for each new water or sewer connection sold by the District until a sum of \$100,000 has been paid. In addition, the District agreed to pay Dr. Alvin Cobabe \$100,000 under the same terms in order to obtain clear title to certain lands transferred. \$59,500 has been paid to each leaving a balance of \$40,500 each.

Sewer Lagoon property-

As stated in Note 8, the District has been leasing ground where the sewer lagoons are located. The ground has been sold to new owners and a new lease has not been negotiated. The operations of the lagoons are vital to the District. A settlement of the issue could have a material affect on the District.

POWDER MOUNTAIN WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 11 - CHANGES IN LONG-TERM DEBT

Changes in long-term debt as of December 31, 2006 are detailed in the following summary:

	Balance December 31, 2005	Additions/ Deletions	Balance December 31, 2006
Notes payable	\$ 80,128	\$ (80,128)	\$ -
Bond guarantee	149,875	(149,875)	-
Accrued interest	193,265	(193,265)	-
Total	<u>\$ 423,268</u>	<u>\$ (423,268)</u>	<u>\$ -</u>

NOTE 12 - PENSION PLAN OBLIGATION

The Company has no established pension plans, nor any such obligations.

NOTE 13 - LEGAL COMPLIANCE BUDGETS

The budget for the fiscal year ended December 31, 2006, was approved and adopted by resolution or ordinance dated December 7, 2005. A public hearing, meeting the requirements specified in the Utah Code 11-35-113/114, was held on December 7, 2005. The budget was not amended during the year.

NOTE 14 - PROPERTY TAX CALENDAR

Lien date	Jan. 1
Taxing districts notify the county of date, time, and place of public hearing	March 1
County auditor send valuation certified tax rate and levy worksheets to each taxing district	June 8
Taxing district must adopt a proposed tax rate, certify the rate and levy, and submit to the county auditor	Before June 22
Taxing district adopts a final tax rate if there is no increase in certified tax rate	June 22
Taxing district adopts final budget	Dec. 1
Copy of the budget is submitted to state auditor within 30 days of adoption	

POWDER MOUNTAIN WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

NOTE 15 - RISK MANAGEMENT

Powder Mountain Water and Sewer District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters for which the District carries commercial insurance. The District maintains comprehensive insurance coverage in aggregate amounts sufficient to protect against all reasonably foreseeable liability risks. Specific liability policies purchased include automobile, general liability, property, bond (employee dishonesty), treasurer, public officials and officers, excess liability, and workman's compensation. As of December 31, 2006, there is no anticipation of unpaid claims. Therefore, a liability is not accrued.

As previously stated, deposits and investments are governed by the Utah Money Management Act. Following are discussions of the District's exposure to various risks related to its cash management activities.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by investing mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with the Act as previously discussed.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy for reducing this risk of loss is to comply with the Act. The District's investment in the Utah PTIF has no concentration of credit risk.

Custodial Credit Risk

For an investment, this is the risk that, in the event of the failure of the counterparty, the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment in the Utah PTIF has no custodial credit risk.

NOTE 16 - RESERVE FOR IMPACT FEES

The District accounts for impact fees collected as required by state law. The impact fee reserve balance and restricted cash at December 31, 2006 was \$343,215.

POWDER MOUNTAIN WATER AND SEWER DISTRICT
SUPPLEMENTARY INFORMATION

December 31, 2006

Schedule of Impact Fees

The District collects impact fees from property owners when water and sewer connections are made. These amounts are reserved for the purpose of paying for pre-existing debt incurred in the construction of the water and sewer facilities, and to upgrade and enlarge such facilities.

At December 31, 2006 there was \$343,215 reserved for these fees, shown on the financial statements as reserved net assets. These amounts were received as follows:

2006	<u>343,215</u>
	<u><u>\$ 343,215</u></u>

The District will be using these funds over the next several years to upgrade its facilities in order to meet the needs of increased property owners due to the economic development in the area.

**POWDER MOUNTAIN WATER
AND SEWER DISTRICT**

**Auditor's Report and
Auditor's Management Letter**

December 31, 2006



**CARVER
FLOREK &
JAMES, LLC**

CERTIFIED PUBLIC ACCOUNTANTS

Steven L. Carver, CPA
Brent R. Florek, CPA
Gordon H. James, CPA

**AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE
NO STATE GRANTS RECEIVED BY ENTITY**

Kerby Cate, CPA
Jared Frost, CPA
Connie Koenemann, CPA
Nicole Stites

Board of Trustees
Powder Mountain Water and Sewer District

We have audited the accompanying financial statements of the business-type activities of Powder Mountain Water and Sewer District for the year ended December 31, 2006, and have issued our report thereon dated June 22, 2007. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property Tax Limitations
Other Compliance Requirements
Special District Compliance Items
Impact Fees

The District did not receive any major or non-major State grants during the year ended December 31, 2006.

The management of the District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material non-compliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed an immaterial instance of noncompliance with the requirements referred to above, which is described in the accompanying schedule of findings and questioned costs. We considered this instance of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion the Powder Mountain Water and Sewer District, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2006.

Carver Florek & James, CPAs

June 22, 2007

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POWDER MOUNTAIN WATER AND SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - STATE LEGAL COMPLIANCE
DECEMBER 31, 2006

1. EXCESS OF EXPENDITURES OVER BUDGET BY DEPARTMENT

State compliance requires that expenditures should not be incurred in excess of appropriated or budgeted funds. Total expenses for the year ended December 31, 2006 exceeded budgeted expenses by \$42,117. Actual revenues were \$85,131 more than budgeted revenues.

Management Response:

The District will take measures to establish appropriate budgets and expend funds within those guidelines.

POWDER MOUNTAIN WATER AND SEWER DISTRICT
STATUS OF YEAR 2004 FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2006

1. EXCESS OF EXPENDITURES OVER BUDGET BY DEPARTMENT

State compliance requires that expenditures should not be incurred in excess of appropriated or budgeted funds. Total expenses for the year ended December 31, 2005 exceeded budgeted expenses by \$56,285. Actual revenues were \$462,722 more than budgeted revenues.

Management Response:

The District will take measures to establish appropriate budgets and expend funds within those guidelines.

Status: Partially implemented.



**CARVER
FLOREK &
JAMES, LLC**

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Powder Mountain Water and Sewer District
Eden, Utah

We have audited the accompanying financial statements of the business-type activities of the Powder Mountain Water and Sewer District, as of and for the year ended December 31, 2006, which collectively comprise Powder Mountain Water and Sewer District's basic financial statements, and have issued our report thereon dated June 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Powder Mountain Water and Sewer District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of general purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to the management in a separate letter dated June 22, 2007.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Powder Mountain Water and Sewer District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over the financial reporting and its operation that we consider to be material weaknesses.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
(Continued)

This report is intended solely for the information and use of the audit committee, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Carver Floerke & James, CPAs

June 22, 2007



**CARVER
FLOREK &
JAMES, LLC**

CERTIFIED PUBLIC ACCOUNTANTS

Steven L. Carver, CPA
Brent R. Florek, CPA
Gordon H. James, CPA

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Nicole Stites

June 22, 2007

Honorable Board of Trustees
Powder Mountain Water and Sewer District
Eden, UT

We have recently completed our audit examination of the basic financial statements of the Powder Mountain Water and Sewer District for the year ended December 31, 2006. During our audit we noted the following item for your consideration:

1. EXCESS OF EXPENDITURES OVER BUDGET BY DEPARTMENT

State compliance requires that expenditures should not be incurred in excess of appropriated or budgeted funds. For the year ended December 31, 2006 total expenses exceeded the budget by \$42,117 and actual revenues exceeded the budget by \$85,131.

We wish to express our appreciation for the cooperation of your personnel during the course of our audit. If you have any questions concerning the above items, please call us.

Sincerely,

A handwritten signature in black ink that reads "Gordon H. James".

Gordon H. James
Certified Public Accountant